

## Message Text

LIMITED OFFICIAL USE

PAGE 01 PARIS 22310 01 OF 04 141218Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CEA-01 EB-08 OIC-02 AID-05 CIAE-00  
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00  
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05  
SS-15 STR-07 L-03 H-01 IO-13 DOE-15 SOE-02 AGR-01  
/128 W

-----018860 141226Z /40

R 131953Z JUL 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 4804  
INFO ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 01 OF 04 PARIS 22310

USOECD

E.O. 11652: N/A  
TAGS: OECD, ECON, US  
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE  
(EDRC): REVIEW OF THE UNITED STATES, JUNE 28, 1978

REF: (A) EDR(78)15 AND ADDENDA; (B) STATE 169672

1. SUMMARY AND COMMENT: EXTENSIVE CONGRUENCE OF VIEW  
AMONG SECRETARIAT, U.S. DEL AND EDRC RESULTED IN MINIMAL  
REVISIONS TO SECRETARIAT DRAFT SURVEY OF U.S. ECONOMY.  
PRESENTATION BY U.S. DELEGATION (HEADED BY CEA MEMBER  
GRAMLEY AND INCLUDING WIDMAN, TREASURY; TRUMAN, FRB)  
COVERED USG LATEST OFFICIAL FORECAST PLUS ANALYSIS OF  
POLICY STANCE IN LIGHT OF UNEXPECTEDLY STRONG EMPLOY-  
MENT GROWTH, PERSISTENT INFLATIONARY PRESSURES AND INTER-  
NATIONAL ECONOMIC SITUATION. QUESTIONING BY EDRC EXAMI-  
NERS (FRANCE AND CANADA), OTHER DELS AND SECRETARIAT  
WAS ACTIVE AND WIDE-RANGING. PUZZLING BEHAVIOR OF  
LABOR PRODUCTIVITY WAS SUBJECT NUMEROUS QUESTIONS: U.S.  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 22310 01 OF 04 141218Z

DEL EXPLAINED THAT NO CLEAR ANSWERS ARE YET AVAILABLE,  
BUT THAT SOME PRODUCTIVITY CATCH-UP EXPECTED OVER NEXT  
SIX QUARTERS. EDRC ENDORSED SECRETARIAT AND U.S. DEL  
EMPHASIS ON COUNTER-INFLATIONARY POLICY, ALTHOUGH UK  
DEL QUESTIONED WHETHER INFLATION RISK NOT OVERSTATED  
AND RECESSION/UNEMPLOYMENT RISK UNDER-ESTIMATED. FRENCH  
DEL SET COURSE OF INQUIRY ON BOP BY QUESTIONING "GENER-

ALLY ACCEPTED" THESIS THAT U.S. SHOULD REDUCE CURRENT ACCOUNT DEFICIT AS MEANS TO RESTORE CONFIDENCE IN DOLLAR, SINCE U.S. DEFICIT IS MAIN SOURCE OF BUOYANCY IN OECD AREA. U.S. SAID CONFIDENCE OR STRONG DOLLAR IS CRUCIAL TO INTERNATIONAL MONETARY SYSTEM AND SHARP RISE IN U.S. DEFICIT HAD WEAKENED CONFIDENCE -- EVEN SO, U.S. NOT FACED WITH POLICY DILEMMA SINCE SOMEWHAT SLOWER GROWTH, LOWER INFLATION AND EFFICIENT ENERGY POLICY ARE CALLED FOR BY BOTH DOMESTIC AND EXTERNAL CONSIDERATIONS. CANDID AND CONCISE RESPONSES FROM U.S. DEL TO QUESTIONS EVOKED NUMEROUS FAVORABLE COMMENT IN COMMITTEE AND PRIVATELY FROM EDRC DELS, OFTEN EXPRESSING OPINION THAT U.S. REVIEW WAS EXCELLENT EXAMPLE OF HOW EDRC EXAMINATION SHOULD GO. REVISED U.S. SURVEY APPROVED BY EDRC ON JULY 10; WILL BE MADE AVAILABLE TO PRESS ON JULY 18 EMBARGOED TO JULY 26. PUBLISHED SURVEY WILL BE SENT TO POSTS IN ALL OECD CAPITALS FOR INFO. END SUMMARY

2. TRENDS AND OUTLOOK: U.S. DEL (GRAMLEY) OUTLINED NEW OFFICIAL USG FORECAST (RELEASED JULY 7, SEE EUR WIRELESS NO. 130) WHICH REVISED REAL OUTPUT COMPONENTS DOWNWARD FROM JANUARY USG FORECASTS; NEW GNP FORECAST IS 4 PERCENT GROWTH PROFILE FOR 1978 AND 1979, WITH 4.1 AND 4.3 RESPECTIVELY YEAR/YEAR. SECOND QUARTER 1978 EXPECTED TO REACH 7 TO 9 PERCENT TO MAKE UP WEAK FIRST QUARTER, BUT NOT EXPECTED TO CREATE MOMENTUM TO MAINTAIN FASTER PACE. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 22310 01 OF 04 141218Z

UNEMPLOYMENT PROJECTION REMAINS UNCHANGED (I.E., 6 PERCENT FOURTH QUARTER 1978, 5-3/4 PERCENT FOURTH QUARTER 1979) DESPITE OUTPUT REVISION DUE TO UNEXPECTEDLY STRONG LABOR DEMAND, NEVERTHELESS, SOME CATCH-UP IN PRODUCTIVITY IS EXPECTED (2 PERCENT ANNUAL RATE OVER NEXT SIX QUARTERS VS. 1-3/4 TO 2 PERCENT NORMAL RANGE). SEVERAL DELS, INCLUDING AUSTRALIA AND JAPAN WERE SKEPTICAL ABOUT CATCH-UP. IN RESPONSE TO FRENCH QUESTION ABOUT "RATIONALIZATION" INVESTMENT, GRAMLEY NOTED SUCH INVESTMENT DESIRABLE IN PRESENT CIRCUMSTANCES TO BOOST PRODUCTIVITY -- AS OPPOSED TO CONCERNS LAST YEAR THAT CAPITAL STOCK WOULD BE INSUFFICIENT TO SUPPORT FULL EMPLOYMENT. SECRETARIAT'S GROWTH FORECAST, ACCORDING U.S. DEL, AT LOW END OF RANGE OF PROJECTIONS WITH SIMILAR ASSUMPTIONS ABOUT INTEREST RATE. DIFFERENCES SEEM TO BE CONFINED TO: (1) SECRETARIAT ASSUMPTION THAT PRIVATE INVESTMENT WILL SLOW DOWN (BASED ON APRIL ORDERS STATS), WHILE USG SEES NO EVIDENCE OF SLOWDOWN PARTICULARLY GIVEN PROPOSED BUSINESS TAX CUTS AND MAINTENANCE OF PROFIT SHARE THROUGH PRODUCTION CATCH-UP; USG EXPECTS 7 - 7-1/2 PERCENT INCREASE IN REAL PRI-

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 22310 02 OF 04 141218Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CEA-01 EB-08 OIC-02 AID-05 CIAE-00  
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00  
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05  
SS-15 STR-07 L-03 H-01 IO-13 DOE-15 SOE-02 AGR-01  
/128 W

-----018885 141227Z /40

R 131953Z JUL 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 4805  
INFO ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 02 OF 04 PARIS 22310

USOECD

VATE INVESTMENT IN 1979; (2) RESIDENTIAL CONSTRUCTION,  
WHERE USG SEES CONTINUED STRENGTH (ALTHOUGH AT SLOWER  
PACE DUE IN PART TO SUPPLY BOTTLENECKS WHICH CREEP IN  
AT 2 MILLION UNITS ANNUAL RATE) DUE TO INCREASING  
HOUSEHOLDERS' PERCEPTION OF HOUSING AS INVESTMENT OUTLAY  
AND INFLATION HEDGE THUS REDUCING SENSITIVITY TO MARGI-  
NAL CHANGES IN MORTGAGE INTEREST RATES; AND (3) PRIVATE  
CONSUMPTION, WHERE SECRETARIAT SEEMS TO USE HIGHER SAV-  
INGS RATIO.

3. NEW USG FORECAST ALSO REVISED INFLATION OUTLOOK  
DECEMBER 1978/DECEMBER 1977 TO 6.9 PERCENT FOR GNP  
DEFLATOR; 7.25 PERCENT FOR CPI -- WITH "PUBLISHED" SLOW-  
DOWN FORECAST (MORE A HOPE) FOR 1979. USG FEELS THAT  
RECENT STRONG EMPLOYMENT PERFORMANCE REQUIRES THAT  
POLICY CONCENTRATE ON "DEMONSTRABLE" PROGRESS ON INFLA-  
TION FRONT. GRAMLEY CAUTIONED THAT EARLY 1978 INFLA-  
TION STATISTICS MAY BE OVERLY GLOOMY AS THEY (A) REFLECT  
SHARP INCREASES IN FOOD PRICES WHICH ARE EXPECTED TO  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 22310 02 OF 04 141218Z

MODERATE IN COURSE OF 1978 AND (B) ARE SOMEWHAT DISTORTED BY USE OF MARGINAL (RATHER THAN AVERAGE) MORTGAGE RATES AND TERMS IN CALCULATION OF CPI, WHICH, ABSTRACTED FROM THESE TWO FACTORS, IS INCREASING AT SLOWER PACE IN 1978 THAN 1977. WPI ALSO NOW MODERATING AFTER BLIP DUE CRUDE MATERIALS PRICE JUMP. DOLLAR DEPRECIATION ESTIMATED TO ADD 1/2 PERCENTAGE POINT TO CPI IN 1978, WITH MOST OF EFFECT ALREADY PASSED THROUGH. BIGGEST PROBLEM ON INFLATION FRONT, ACCORDING U.S. DEL, IS IN WAGE AREA, WITH HEAVY COLLECTIVE BARGAINING SCHEDULE INVOLVING LARGE UNIONS COMING UP IN 1979. PROGRESS ON PRICES IN 1978 AND MODERATION IN 1978 WAGE SETTLEMENTS (POSTAL WORKERS, RAILROADS) FELT TO BE ESSENTIAL TO INCREASE LEVERAGE OF GOVERNMENT EFFORTS AND PUBLIC OPINION TO MODERATE 1979 SETTLEMENTS. ALTHOUGH MAJORITY OF 1978 INCREASE IN HOURLY EARNINGS EXPLAINABLE BY (A) INCREASE IN MINIMUM WAGE EFFECTIVE JANUARY 1 AND (B) COST-OF-LIVING ADJUSTMENT WITH RISING CPI, SOME DEMAND PRESSURE BEGINNING TO APPEAR, PARTICULARLY NON-UNIONIZED WAGE CATCH-UP AND STRONG DEMAND FOR LABOR IN CERTAIN SECTORS. USG ESTIMATES THAT NON-INFLATIONARY UNEMPLOYMENT RATE SOMEWHERE IN RANGE OF 5 TO 6 PERCENT. HOWEVER, GIVEN INSENSITIVITY OF MAJOR UNION SETTLEMENTS TO LABOR MARKET CONDITIONS, USG IS CONVINCED THAT SLACK ECONOMY IS NOT ANSWER TO INFLATION PROBLEM, ALTHOUGH RECENT BEHAVIOR OF EMPLOYMENT (AND PRODUCTIVITY) REQUIRE CAUTIOUS APPROACH TO FUTURE MACRO POLICY. SECRETARIAT MORE PESSIMISTIC THAN USG ON INFLATION SINCE SECRETARIAT EXPECTS (A) LARGER NON-UNION CATCH-UP; (B) THAT BIG MINER'S SETTLEMENT MAY BECOME PACESETTER; AND (C) THAT FOOD COSTS WILL NOT SLOW DOWN.

4. ON EXTERNAL SECTOR, WIDMAN (TREASURY) NOTED THAT USG HAD REVISED ITS CURRENT ACCOUNT BOP SERIES TO CONFORM LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 22310 02 OF 04 141218Z

WITH IMF SYSTEM. HE SUGGESTED (AND SECRETARIAT AGREED) ADOPTION OF NEW BASIS FOR BOP PRESENTATION IN OECD SURVEY. CHANGE BASICALLY INVOLVES NEW TREATMENT OF REINVESTED EARNINGS BY U.S. SUBSIDIARIES ABROAD WHICH WILL NOW BE ENTERED BOTH AS CURRENT INFLOW AND CAPITAL OUTFLOW, RESULTING IN \$6 BILLION REDUCTION 1977 C/A DEFICIT. JUNE ISSUE OF "SURVEY OF CURRENT BUSINESS" WILL GIVE EXPLANATION AND RETROACTIVE SERIES ON NEW BASIS. U.S. TRADE DEFICIT WAS ON INCREASING TREND THROUGH FIRST QUARTER 1978 DUE (A) SHARP RISE IN OIL IMPORTS (WHICH IN TURN DUE TO STRUCTURAL CHANGE IN U.S. POSITION FROM MAJOR PRODUCER TO MAJOR IMPORTER OF REQUIRED CRUDE PETROLEUM); (B) VIRTUALLY FLAT TREND OF EXPORTS CAUSED BY WEAK GROWTH IN ALL MAJOR TRADING PARTNERS (BOTH

OECD AND ADVANCED DEVELOPING); AND (C) A NUMBER OF SPECIAL FACTORS IN FIRST QUARTER 1978, LINKED WITH EVENTS IN FOURTH QUARTER 1977, WHICH SHOULD REVERSE IN COURSE OF 1978. OVERALL, 1978 TRADE DEFICIT IS EXPECTED TO BE SOMEWHAT LARGER THAN 1977, BUT TO BE ON DOWNWARD TREND DURING COURSE OF YEAR. FOR FUTURE, GROWTH DIFFERENTIALS BETWEEN U.S. AND TRADING PARTNERS WILL BE FAR AND AWAY BIGGEST FACTOR IN TRADE ACCOUNT -- ESTIMATES ARE ROUGHLY THAT EACH 1/2 PERCENT LOWER U.S. GROWTH RATE TRANSLATES INTO 1-1/2 BILLION LOWER IMPORTS AND EACH 1/2 PERCENT INCREASE IN MARKETS INTO 1 BILLION ADDITIONAL EXPORTS. (WE ALSO ESTIMATE THAT CURRENTLY U.S. TRADE DEFICIT WOULD BE ABOUT HALF OF ACTUAL DEFICIT IF GROWTH RATES OF OUR TRADING PARTNERS WERE AT POTENTIAL LEVELS.)

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 22310 03 OF 04 141220Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CEA-01 EB-08 OIC-02 AID-05 CIAE-00  
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00  
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05  
SS-15 STR-07 L-03 H-01 IO-13 DOE-15 SOE-02 AGR-01  
/128 W

-----018965 141230Z /40

R 132012Z JUL 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 4806  
INFO ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 03 OF 04 PARIS 22310

USOECD

ALTHOUGH 1977 U.S. EXPORTS SUFFERED FROM LOST COMPETITIVE POSITION DURING 1975 DOLLAR APPRECIATION, FAVORABLE EFFECTS FROM 1977/1978 DOLLAR DEPRECIATION SHOULD SHOW UP IN LATE 1978/EARLY 1979.

5. ECONOMIC POLICY: GIVEN UNEXPECTEDLY STRONG DEMAND FOR LABOR, U.S. DEL INFORMED EDRC THAT OVERALL MACRO POLICY NOW SEEKING TO MAINTAIN GROWTH PATH SLIGHTLY ABOVE

LONG-TERM POTENTIAL, WHILE CONCENTRATING ON OBTAINING DEMONSTRATED PROGRESS ON INFLATION. FISCAL POLICY, ESPECIALLY TAX PACKAGE, HAD BEEN SCALED BACK IN RECOGNITION NEW CIRCUMSTANCES. MONETARY CONDITIONS HAVE ALSO TIGHTENED; TRUMAN (FRB) MAKING DISTINCTION BETWEEN TIGHTENED POLICY (I.E., M1, M2 RANGES) AND TIGHTENED CONDITIONS (I.E., RECENT RISE IN INTEREST RATES WITH CONCURRENT ABOVE-RANGE GROWTH OF AGGREGATES). TRUMAN NOTED THAT FED PARTICULARLY SENSITIVE TO POTENTIAL EFFECT OF RISE IN INTEREST RATES ON INVESTMENT AND WOULD ACT AS NECESSARY TO SUSTAIN INVESTMENT COMPONENT OF RECOVERY. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 PARIS 22310 03 OF 04 141220Z

HE CITED, AS EXAMPLE, RECENT QUICK ACTION TO RELAX REGULATION Q WHEN HOUSING WAS THREATENED BY SHORTAGE OF MORTGAGE FUNDS.

6. U.S. DEL INDICATED THAT FURTHER REDUCTIONS IN UNEMPLOYMENT WILL DEPEND LESS ON DEMAND MANAGEMENT THAN ON SELECTIVE, TARGETED EMPLOYMENT PROGRAMS TO OVERCOME STRUCTURAL PROBLEMS IN LABOR MARKET (E.G., TARGETED PUBLIC SERVICE EMPLOYMENT, JOB COMPONENT OF WELFARE REFORM, INCENTIVES TO PRIVATE SECTOR TO HIRE DISADVANTAGED, URBAN PROGRAM). WHILE SECRETARIAT AGREES THAT LIMITED SCOPE EXISTS FOR DEMAND MANAGEMENT, IT IS FEARFUL THAT TIGHTER MACRO POLICY, ESPECIALLY ON MONETARY SIDE, MIGHT SERIOUSLY CUT INTO HOUSING AND INVESTMENT ACTIVITY. IT BELIEVES THAT SOME SUPPLEMENTARY POLICY NEEDED TO UNWIND WAGE/PRICE TRENDS WHILE MAINTAINING HIGH EMPLOYMENT -- E.H., AN INSTITUTIONAL ARRANGEMENT TO RESTRICT WAGES AND PRICES VIA TAX SYSTEM. GRAMLEY REPLIED THAT TAX-RELATED INCOMES POLICY PROPOSALS WERE UNDER STUDY, BUT WOULD BE ADMINISTRATIVELY DIFFICULT (ESPECIALLY REWARD-TYPE SYSTEMS A LA OKUN) AND POLITICAL FEASIBILITY MUST OBVIOUSLY BE CONSIDERED. WHILE MOST DELEGATES AGREED WITH NEED FOR CAUTIOUS DEMAND MANAGEMENT IN U.S., UK DEL, SUPPORTED BY FRENCH, JUDGED THAT RISKS WERE MAINLY ON DOWNSIDE, SUGGESTING MORE EXPANSIONARY FISCAL AND MONETARY STANCE MIGHT BE REQUIRED.

7. FRENCH DEL (BERNARD AND BAQUIAST) SET DIRECTION OF INQUIRY INTO BALANCE OF PAYMENTS ASPECTS OF U.S. POLICY BY QUESTIONING THE WISDOM OF "GENERAL OPINION" THAT IT IS DESIRABLE FOR U.S. TO REDUCE ITS DEFICIT WHICH, FRENCH DEL CLAIMED, IS NECESSARY (A) TO OFFSET CHRONIC SURPLUSES ELSEWHERE (CITING ONLY OPEC) AND (B) TO MAINTAIN BUOYANCY LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 PARIS 22310 03 OF 04 141220Z

IN OECD (AND GLOBAL) MARKETS. PROBLEM, ACCORDING TO FRENCH, NOT THE SIZE OF THE U.S. TRADE DEFICIT BUT THE INSUFFICIENT ARRANGEMENTS TO FINANCE IT IN CONTEXT STABLE DOLLAR, SUGGESTING THAT THE "DOLLAR PROBLEM" IS A "STOCK" PHENOMENON WHICH SHOULD NOT BE ADDRESSED BY STOPPING OR SLOWING "FLOWS." U.S. DEL AGREED THAT CONFIDENCE IN DOLLAR WAS IMPORTANT EXTERNAL CONSIDERATION, BUT NOTED USG COULD NOT ACCEPT SYSTEM WHICH DID NOT PERMIT DOLLAR (THUS U.S. COMPETITIVE POSITION) TO ADJUST TO FUNDAMENTALS AS IN PART REFLECTED IN CURRENT ACCOUNT BALANCE. THIS PARTICULARLY TRUE WHEN SURPLUSES ARE BEING ACCUMULATED BY OTHER OECD MEMBERS RATHER THAN "LOW-ABSORBER" OPEC COUNTRIES. CONFIDENCE IN DOLLAR WEAKENED IN 1977 WHEN CONCERN DEVELOPED IN MARKET THAT U.S. CURRENT ACCOUNT DEFICIT WAS TOO LARGE TO BE FINANCEABLE -- THUS U.S. FELT COMPELLED TO LOOK AT CURRENT ACCOUNT BECAUSE OF ITS EXCHANGE MARKET IMPLICATIONS. NEVERTHELESS, USG CONVINCED THAT BEST POLICY VIS-A-VIS BALANCE OF PAYMENTS WOULD BE POLICY WHICH INSURED STRONG DOMESTIC ECONOMY, PARTICULARLY IN CURRENT SITUATION A REDUCTION IN INFLATION RATES AND AN EFFICIENT ENERGY PROGRAM. IN OPINION USG, THERE IS NO PRESENT DILEMMA BETWEEN DOMESTIC AND EXTERNAL OBJECTIVES -- BOTH REQUIRE TRENDING DOWN TOWARD LONG-TERM GROWTH RATES. U.S. DEL COULD NEVERTHELESS ASSURE FRENCH THAT NO SHARP SWING TO SURPLUS WAS EXPECTED FOR U.S. CURRENT ACCOUNT, IN FACT SOMEWHAT LARGER DEFICIT EXPECTED IN 1978 THAN 1977. FINANCING CAPITAL INFLOWS NOW SEEMS TO BE SUFFICIENT, ONE FACTOR

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 PARIS 22310 04 OF 04 141218Z  
ACTION EUR-12

INFO OCT-01 ISO-00 CEA-01 EB-08 IO-13 OIC-02 AID-05  
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 ICA-11  
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01  
NSC-05 SS-15 STR-07 L-03 H-01 DOE-15 SOE-02  
AGR-01 /128 W

-----018851 141231Z /40

R 132012Z JUL 78  
FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4807  
INFO ALL OECD CAPITALS

LIMITED OFFICIAL USE SECTION 04 OF 04 PARIS 22310

USOECD

BEING THAT INTEREST RATE DIFFERENTIALS WORK IN EQUILIBRATING DIRECTION. U.S. DEL SUPPORTED SECRETARIAT RECOMMENDATION FOR GREATER EXPORT AWARENESS IN U.S. AND OUTLINED SOME IDEAS BEING DISCUSSED IN CABINET-LEVEL TASK FORCE NOW WORKING ON THIS PROBLEM. EDRC APPEARED GENERALLY TO SUPPORT FRENCH POSITION THAT A U.S. DEFICIT DESIRABLE, BUT ALSO SEEMED TO AGREE WITH GENERAL LINES OF U.S. VIEW THAT CONTINUED GROWTH BEST KEPT ONLY MODERATELY ABOVE POTENTIAL AND THAT IN THIS CONTEXT INFLATIONARY TRENDS AND OIL IMPORTS NEED TO BE BETTER CONTROLLED TO ASSURE CONFIDENCE IN U.S. ECONOMY THUS IN U.S. DOLLAR.

8. BOP DISCUSSION INCLUDED DISCUSSION OF ENERGY POLICY WITH MOST DELEGATES URGING PROMPT U.S. ACTION TO ALLOW PRICING SYSTEM TO PLAY MORE ACTIVE ROLE IN CONSERVING ENERGY AND ENCOURAGING DEVELOPMENT OF NEW SOURCES. U.S. DEL OUTLINED STATUS ENERGY PACKAGE. IN RESPONSE TO SUGGESTION THAT ENERGY PROGRAM WOULD HAVE UNDESIRABLE RAMIFICATIONS

LIMITED OFFICIAL USE

PAGE 02 PARIS 22310 04 OF 04 141218Z

FICATIONS ON INFLATION PERFORMANCE, GRAMLEY AGREED BUT FELT (A) THIS CLASSIC CASE OF CONFLICT BETWEEN OBJECTIVES, WITH NEED FOR "REPLACEMENT PRICING" IN ENERGY OVERRIDING AND (B) PRICE EFFECT WOULD NOT BE ALL THAT LARGE, FALLING MAINLY ON GASOLINE. WIDMAN CAUTIONED THAT ENACTMENT OF ENERGY PACKAGE WOULD NOT HAVE DRAMATIC IMMEDIATE EFFECT ON OIL IMPORTS. HE ALSO RESISTED FRENCH ATTEMPT TO DISTINGUISH BETWEEN U.S. OIL, NON-OIL BOT DEFICIT, NOTING THAT U.S. CAN NO LONGER BE SELF-SUFFICIENT IN OIL THUS OIL IMPORTS MUST, LIKE EVERYTHING ELSE, BE PAID FOR BY EXPORTS OF U.S. PRODUCTION, PARTICULARLY MANUFACTURES (EXCEPT TO EXTENT OF SOME APPROPRIATE SHARE OF OPEC SURPLUS).

9. REVISED TEXT OF U.S. SURVEY, INCORPORATING CHANGES PER STATE 169672 AND PER KOP/KLOCK TELCON, WAS APPROVED BY EDRC ON JULY 10. ENGLISH VERSION OF SURVEY WILL BE RELEASED IN "RONEO" FORM TO PRESS ON JULY 18 (FRENCH VERSION A DAY OR TWO LATER), EMBARGOED UNTIL JULY 26. PRINTED SURVEY EXPECTED BEFORE SUMMER BREAK. MISSION WILL PROVIDE PRINTED SURVEY TO EMBASSIES IN OECD COUNTRIES



FOR INFORMATION. SALZMAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC DEVELOPMENT, COMMITTEE MEETINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978PARIS22310  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780289-0100  
**Format:** TEL  
**From:** PARIS USOECD  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780764/aaaacbvq.tel  
**Line Count:** 441  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** f74eda75-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 9  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 STATE 169672  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 05 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2020793  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC): REVIEW OF THE UNITED STATES, JUNE 28, 1978  
**TAGS:** ECON, US, OECD  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/f74eda75-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014